

RATING REPORT

Akram Cotton Mills Limited (ACML)

REPORT DATE:

April 24, 2020

RATING ANALYSTS:

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Rating Category	RATING DETAILS			
	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-2	BBB	A-2
Rating Date	April 24, 2020		Dec 16, 2019	
Rating Action	Maintained		Upgrade	
Rating Outlook	Rating Watch – Negative		Stable	

COMPANY INFORMATION

Incorporated in 1993	External auditors: EY Ford Rhodes Chartered Accountants
Public Limited Company (Unlisted)	Chairman of the Board: Mr. Ali Pervaiz
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Ali Pervaiz
Mr. Ali Pervaiz – 32.54%	
Mr. Ahmed Pervaiz – 22.39%	
Mr. Mohammad Pervaiz Malik – 15.94%	
Mrs. Shaista Pervaiz – 21.96%	
Mrs. Saadia Kamran – 7.18%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)
<https://www.vis.com.pk/kc-meth.aspx>

Akram Cotton Mills Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Akram Cotton Mills Limited is a spinning mill engaged in the production of 100% carded cotton yarn. The company commenced operations in 1993 as Public Limited Company (Unlisted). Registered office of the company is in Lahore while manufacturing unit is located in Pattoki, Punjab.

Profile of Chairman/CEO

Mr. Ali Pervaiz is the Chairman of board and CEO of the company. He has been working as the CEO of the company for the last fourteen years. Previously he was engaged in banking sector. He has also served as Chairman APTMA Punjab.

Akram Cotton Mills Limited (ACML) is a spinning mill which specializes in the production of carded cotton yarn, with a count range of 20/1 to 30/1 and local hosiery textile units being the primary target customers. The company has installed 23,220 spindles with all necessary back processes and in-house yarn testing equipment. Capacity utilization of the unit has averaged around 90% over the past two years. The spinning unit is located in Pattoki, Punjab, and is spread over approximately 25 acres of land with total constructed area of over 200,000 square feet.

The company produces cotton yarn only, for which cotton is procured from the local market. The cumulative power requirement of the unit is 2.5 MW, which is met primarily through gas-fired generators having generation capacity of 3MW. For power backup, the company has a diesel generator of 1MW capacity along with a dedicated connection of 2.6MW from the national grid. Shareholding of the company is vested with the sponsoring family who is actively involved in day to day operations.

Net sales of the company amounted to Rs. 2.5b during FY19 (FY18: Rs. 2.1b), with growth mainly emanating from higher average selling prices and increase in volumetric sales in the domestic market. Customer base of the company comprises local institutional and retail clients. Concentration risk is considered low as top-10 customer generated sales of around 40% of total revenue. In line with the higher sales and slightly improved margin, increase in gross profit and cash flows generation was also noted during FY19. The debt profile of the company comprises a mix of short-term and long-term debt, though the proportion of former is higher. Tier-1 equity of the company augmented with the retention of profits, which resulted in improved gearing and debt leverage ratio of 0.93x (FY18: 1.18x) and 1.14x (FY18: 1.57x) respectively, at end-FY19.

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be effected by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Considering the scale of spinning operations of the company and being on the lowest of textile chain, ratings are being placed on 'Negative' outlook. Nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status. The ratings are dependent upon maintenance of overall sales, profit margin, debt service coverage, and gearing ratios at prudent levels.

Akram Cotton Mills Limited
Appendix I

FINANCIAL SUMMARY			
<i>(Amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	30-Jun-17	30-Jun-18	30-Jun-19
Non-Current Assets	372	529	548
Stock-in-Trade	370	374	382
Trade Debts	19	86	86
Balance with Statutory Authorities	49	69	60
Other Assets	9	20	47
Cash & Bank Balances	7	8	11
Total Assets	826	1,086	1,134
Trade and Other Payables	45	76	80
Short Term Borrowings	308	317	289
Long Term Loan	6	180	206
Total Interest Bearing Debt	314	497	495
Other Liabilities	81	91	31
Total Liabilities	440	664	606
Tier 1 Equity	386	422	529
Paid-up Capital	139	139	139
<u>INCOME STATEMENT</u>	30-Jun-17	30-Jun-18	30-Jun-19
Net Sales	1,753	2,073	2,518
Gross Profit	79	168	226
Operating Profit	25	104	155
Finance Cost	33	43	87
Profit Before Tax	(7)	61	67
Profit after Tax	(20)	37	107
<u>RATIO ANALYSIS</u>	30-Jun-17	30-Jun-18	30-Jun-19
Gross Margin (%)	4.5	8.1	9.0
Net Margin (%)	(1.1)	1.8	4.2
Current Ratio (x)	1.22	1.29	1.44
Net Working Capital	83	124	178
Debt Leverage (x)	1.14	1.57	1.14
Gearing (x)	0.81	1.18	0.93
FFO	(8)	83	200
FFO to Total Debt (x)	(0.03)	0.17	0.40
FFO to Long Term Debt (x)	(1.42)	0.46	0.97
Debt Servicing Coverage Ratio (x)	0.70	2.85	2.71
Inventory + Receivables/Short-term Borrowings (x)	1.20	1.39	1.62
ROAA (%)	(1.3)	1.9	4.8
ROAE (%)	(2.5)	4.6	11.2

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Akram Cotton Mills Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	24-04-2020	BBB	A-2	Rating Watch – Negative	Maintained
	16-12-2019	BBB	A-2	Stable	Upgrade
03-07-2019	BBB-	A-2	Stable	Initial	
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Muhammad Javed Ilyas	Manager Accounts & Internal Control	12-April-2020		